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Recommendations of the Board of Auditors

UNDP: Report on the implementation of the recommendations of the Board of Auditors, 2008-2009

Report of the Administrator

Summary

For the biennium ended December 2009, the United Nations Board of Auditors issued an unqualified or "clean" audit opinion on the financial statements of UNDP for the period audited (A/65/5/Add.1). This is the second consecutive biennium that the Board of Auditors has issued such unqualified audit opinion for UNDP. The next audit report of the Board of Auditors, for the biennium 2010-2011, is due around July 2012.

The present report provides an implementation status update on the 89 audit recommendations made by the Board of Auditors for the biennium ended 31 December 2009. As at October 2011, UNDP had implemented 90 per cent of the audit recommendations targeted for completion by third quarter 2011. UNDP expects to fully implement most, if not all, of the audit recommendations by the financial closing of the accounts. Pursuant to Executive Board decision DP/2010/9, the status of the audit implementation is available in tabular form on the Executive Board Secretariat website. Consistent with Executive Board decision 2011/9, the present report also reviews progress made in addressing the top 10 audit priorities for 2010-2011, including preparation for the adoption of the International Public Sector Accounting Standards (IPSAS).

The report takes into consideration comments received from the October 2011 Audit Advisory Committee meeting and the Report of the Board of Auditors to the General Assembly (A/66/139), as well as the UNDP-specific comments made by the Advisory Committee on Administrative and Budgetary Questions (ACABQ) (A/66/377) on the Board of Auditors report.

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Elements of a decision

The Executive Board may wish to: (a) recognize progress made by UNDP in addressing the audit-related priorities in 2010-2011; (b) recognize progress made by UNDP for the planned transition to the Internal Public Sector Accounting Standards (IPSAS) in January 2012.

I. Introduction

1. UNDP uses an accountability-based and risk-informed approach in addressing key recurring audit issues consistent with the principles of accountability outlined in the UNDP accountability framework and oversight policy (DP/2008/16/Rev.1). The Executive Group chaired by the Administrator sets the tone by strategically reviewing progress made in addressing the top 10 audit priorities. Progress is monitored and discussed at the Organizational Performance Group (OPG) meetings chaired by the Associate Administrator.

2. Pursuant to Executive Board decision DP/2010/9, the status of the audit implementation is available in tabular form on the Executive Board Secretariat website. The present report reviews progress made since the last update (DP/2011/14), when UNDP management presented its top 10 audit priorities for 2010-2011 and related management actions. The top 10 audit priorities (reduced from the original top 15 list of 2006-2007 and the top 11 list of 2008-2009) reflect agreement with the United Nations Board of Auditors and the UNDP Office of Audit and Investigations (OAI) on the residual audit risks and new emerging ones requiring specific management focus in 2010-2011 in preparation for the adoption of IPSAS in January 2012.

II. Status of audit recommendations of the Board of Auditors for the biennium ended 31 December 2009

3. For the biennium ended 31 December 2009, the Board of Auditors issued 89 audit recommendations in its report A/65/5/Add.1. Of these, 35 recommendations were categorized as main recommendations, while 54 were categorized as other recommendations of the Board of Auditors.

4. In consultation with the Board of Auditors, UNDP adopted a phased approach to the implementation of the audit recommendations. Target completion dates have been set for different recommendations based on a management assessment of the effort and complexity involved in fully addressing the audit recommendations. The phased approach minimizes disruption of work at UNDP Headquarters and country offices during peak periods and allows the Board of Auditors to progressively validate implementation status. The implementation rate is measured against target completion dates, and there are specified audit action plans as discussed with the Board of Auditors.

5. In 2011, UNDP took specific steps to enhance the management, reporting and monitoring of audit recommendations of the Board of Auditors through the roll out

of a real-time Web-based audit tracking system. It is an extension of the system first developed for tracking the status of internal audit recommendations and has, inter alia, e-mail alert capability. Thus the Board of Auditors is alerted to review comments entered by responsible units and to preview the audit trail of supporting evidence for implemented audit recommendations for the purpose of validating them. This system and process enhancement was cited as a good practice by the Board of Auditors in the report contained in A/66/139 (paragraph 38) and by the ACABQ in the report contained in A/66/377 (paragraph 16).

6. As of 31 October 2011 (the cut-off date for the present report), UNDP had implemented 60 audit recommendations. Forty-five recommendations (or 90 per cent) were implemented by the targeted completion date of third quarter of 2011, while another 15 recommendations were implemented ahead of their target completion dates. As of June 2011, the Board of Auditors had validated the full implementation status of 46 audit recommendations. The remaining recommendations were being validated by the Board of Auditors at the time of this report's preparation.

Table 1
Implementation status by target completion dates

Target completion date	*Implemented*	*In progress*	*Overtaken by events*	*Grand Total*	*Percentage implemented*
2010, 3rd quarter	19			19	
2010, 4th quarter	22	1		23	
2011, 1st quarter	2			2	
2011, 2nd quarter	1	4		5	
2011, 3rd quarter	1				
Total due 2011, 3rd quarter or earlier	**45**	**5**		**50**	**90**
2011, 4th quarter	15	17		32	
2012, 1st quarter		6		6	
Overtaken by events			1	1	
Grand Total	**60**	**28**	**1**	**89**	**68**

7. Of the remaining 29 audit recommendations, 17 relate to year-end activities and thus will be completed in the fourth quarter of 2011. Six IPSAS-related recommendations will be fully implemented in the first quarter of 2012 after the introduction of IPSAS. One recommendation (which relates to midterm reviews for staff performance assessment) has been overtaken by events since the new Results Competency Assessment (RCA) does not require midterm reviews. The details of the implementation status are available in the document posted on the website of the Executive Board Secretariat together with this report.

III. Progress made in addressing audit priorities in 2010-2011

8. UNDP is committed to addressing all audit recommendations and in particular the key and recurring audit risks identified by the Board of Auditors and the Office of Audit of Investigations (OAI). For the purpose of assessing progress made on the top 10 audit priorities (see Annex 1) for 2010-2011, management has decided, for most cases, to assess current progress against the results of the last biennium, and against internal targets where appropriate. This is a preliminary management self-assessment based on results as at June 2011 (or later where available). Another review will be conducted in 2012 when the Board of Auditors issues its audit report for the 2010-2011 biennium.

9. Current assessment is that good progress has been noted in eight areas and that plans to address the audit risks are on target ("rating of 4"). Some improvements were noted in two areas, but more work remains ("rating of 3") to realize the expected impact of planned management interventions. There are therefore residual risks that must be managed accordingly. The details of progress on and of challenges regarding the top 10 audit priorities are discussed in paragraphs below.

Table 2
Summary of progress made top 10 audit priorities

1. NIM audit follow and HACT	4
2. Programme/Project design, monitoring and evaluation	3
3. Procurement management	3

4. Atlas user security & internal controls	4
5. Leave record and recruitment management	4
6. Asset management	4
7. High risk programme portfolios	4

8. Balance sheet data clean up	4
9. IPSAS readiness	4
10. Long outstanding audit recommendations	4

Legend used	Color code
Conditions effectively addressed	5
Good improvements noted. On target	4
Improvements noted. More work remains	3

Legend used	Color code
Remedial actions yet to be fully taken or intended effects yet to be fully established	2
Conditions worsened	

10. NIM audit follow-up and HACT monitoring/support. The management focus has been on timely submission of annual audit reports for nationally implemented projects (NIM); follow up of projects with significant net financial impacts (NFI) associated with qualified audit opinions; monitoring of NIM advances; and oversight and support of countries to help them comply with the requirements for the harmonized approach to cash transfer (HACT).

(a) The timeliness of the submission of NIM audit reports has improved. OAI reported that as at end June 2011, audit reports totalling 93 per cent of planned expenditure of NIM projects had been received (compared to 90 per cent for fiscal year 2009). As at end October 2011, the submission rate had improved further, to 98 per cent.

(b) The net financial impacts of qualified audit opinions for the 2010 audit cycle were lowered. OAI has reported that as at end October 2011, NFI for 2010 audit was $39 million or 1.8 per cent of audited expenditures (compared to $48.2 million or 2.7 per cent for 2009). Country offices have been advised to address fiduciary risks related to NFI and/or review an alternate cash transfer modality with implementing partners, a modality that involves recurring qualified audit opinions (for two or more years).

(c) The oversight and monitoring of aging NIM advances has been strengthened. The Atlas dashboard has been modified to track advances in excess of six months, as recommended by the Board of Auditors. Credit balances decreased from $5 million in December 2009 to $0.8 million in December 2010. This was an 84 per cent decrease. Debit balances decreased from $13.8 million to $5.8 million as at December 2010.

(d) More UNDP country offices are now HACT compliant.[1] As at March 2011, 52 of the 61 country offices that previously requested deferrals in implementation have progressed to the next stage. As at June 2011, 61 country offices were UNDP HACT compliant (compared to 19 country offices in 2009). The United Nations Development Group (UNDG) HACT advisory group has initiated a global review of the HACT framework. This includes an assessment of the governance mechanisms and division of labour between different HACT stakeholders.

11. Programme/project design, monitoring and evaluation. The management focus has been on improving support to country offices in preparing their United Nations Development Assistance Framework (UNDAF) and country programme documents, along with continuing to strengthen results-based management capacity, accountability and quality assurance in programme/project design, monitoring and evaluation. The combined effect of these measures will be a gradual improvement in the quality of UNDAF, country programme and integrated workplan results and evident use of relevant indicators (as agreed with national partners). The objective is to contribute to the development results chain and enhance the effectiveness of UNDP programmatic interventions in programme countries.

(a) A comprehensive review of the results reporting framework and indicators has been completed as part of the strategic plan midterm review exercise. The development and institutional results frameworks were proposed and approved by the Executive Board and are in place for 2012-2013. Additional indicators have been introduced in order to capture the substantive contributions of UNDP to development, and there is a new category of indicators to measure development effectiveness. The results-oriented annual report (ROAR) reporting format have been redesigned to capture new results.

(b) The enhanced results-based management platform was launched in 2010. This platform integrated into an integrated work plan: the development work plan, the management work plan, resource planning, balanced scorecard target setting, and risk management. UNDP trained more than 500 practitioners in how to use the

[1] The harmonized approach to cash transfer (HACT) is a common operational framework for transferring cash to government and non-government implementing partners. It is designed to reduce the number of United Nations procedures that implementing partners have to follow.

revised tools and system effectively. Specific design changes were made to allow monitoring of gender equality performance using the gender marker.

(c) The programme/project management task force established by the Associate Administrator has started introducing required processes to substantially improve full-cycle support for programme and project management as well as quality assurance and appraisal arrangements. The project management module in Atlas has been enhanced to better capture development outcomes and outputs as part of the results hierarchy, and monitoring reports are being adjusted accordingly. The UNDP evaluation policy was revised in 2011 and approved to make country programme document evaluation plans more outcome-oriented and strategic. New balanced scorecard indicators have been introduced to capture the quality of the monitoring process.

12. Procurement management at UNDP offices. Working within the UNDP procurement roadmap, which has been approved by the Organizational Performance Group (OPG), management has focused on the mitigation of potential procurement-fraud risks, the strengthening of the oversight and monitoring capability, and the implementation of preventive measures in managing prohibited vendors.

(a) Investigation capacity and anti-fraud reporting mechanisms have been further strengthened. At the recommendation of the Audit Advisory Committee, the Administrator in late 2010 approved the revised charter of the OAI. This charter, inter alia, expanded the mandate of the investigation function to include assessing and conducting investigations into allegations of frauds and other financial irregularities committed by contractors, implementing partners and other third parties, and conducting proactive investigations in high-risk areas susceptible to fraud, corruption and other wrongdoing. The anti-fraud hotline has been enhanced to support multi-language Web reporting, toll-free telephone reporting and enhanced anonymous reporting.

(b) Anti-fraud policy and vendor management policy have been further enhanced. The UNDP anti-fraud policy has been updated and promulgated. It reaffirms that UNDP adopts a zero-tolerance policy against fraud and other corrupt practices that are inconsistent with the United Nations standard of conduct or that involve a loss to UNDP funds, including to funds and programmes administered by UNDP. Procurement ethics have been included as one of the key topics in regional procurement workshops. A UNDP vendor-suspension policy approved by OPG is now in force.

(c) Procurement management and oversight capabilities have been progressively enhanced. UNDP now has in place three levels of procurement certification programmes. The level III and level II procurement certification programmes launched in 2011 and 2010 respectively are accredited by the Chartered Institute of Purchasing & Supply. It augments the level I (basic) certification programme rolled out since 2006. In addition, it is actively building expertise and capabilities for highly specialized procurement in the areas of crisis response/recovery, pharmaceuticals, construction and civil works, and specialized equipment for electoral support.

(d) The Advisory Committee on Procurement management system is currently being enhanced to provide more efficient submission and effective monitoring of procurement contract approvals at the country, regional-centre and

Headquarters levels. One of the key challenges (currently being addressed) is the implementation of procurement planning for selected high-volume procurements. The objective is to ensure a clearer link between programme/project planning and procurement planning in order to achieve greater cost-effectiveness and savings while not imposing additional burdens on the country offices.

13. Atlas user security and internal controls. The management focus has been on strengthening system-monitoring capabilities and providing greater policy clarification of key internal controls established in Atlas and relevant business processes.

(a) The UNDP internal control framework (ICF) has been revised and is now aligned with international standards. As part of the transition to IPSAS, the related Programme and Operations Policies and Procedures have been revised to reflect internal controls and other requirements under IPSAS.

(b) All Atlas-related audit recommendations issued by OAI are fully implemented and monitoring capabilities have been strengthened. As at May 2011, all 60 audit recommendations issued by OAI in 2008 that relate to Atlas risks and controls have been fully implemented. In addition, the Office of Finance and Administration at the Bureau of Management conducts spot reviews of key Atlas transactions.

(c) Active and regular monitoring of Atlas user accounts and access rights is taking place. These are reviewed on an annual basis jointly with the business owners to review any exceptions to the ICF including those duly authorized by the Chief Finance Officer. Plans are under way for a vulnerability assessment of the Atlas system in order to enhance the security and integrity of this system.

14. Asset management. In preparation for the transition to IPSAS, the management focus has been on ensuring timely and accurate certification of management assets and establishing quality assurance process for asset data in Atlas.

(a) All UNDP offices have completed the certification of management assets for 2010. More than 90 per cent of UNDP offices had already completed their half yearly certification for 2011 as at August 2011. This is expected to contribute, in the first quarter of 2012, to a smoother year-end certification for 2011.

(b) An asset-quality strategy has already been put in place. UNDP has started: pre-screening existing Atlas asset data for obvious data errors (e.g. excessive values) prior to year-end certification; reviewing purchase orders to identify assets that may not be correctly tagged; reviewing assets that may be or become obsolete given their useful lifespans.

15. IPSAS readiness. UNDP expects to be on track to adopt IPSAS in January 2012, pursuant to Executive Board decision 2009/15. The management focus has been on accelerating efforts to prepare the organization, stakeholders, staff, the Atlas system and data and to finalize IPSAS-related policies in consultation with the Board of Auditors and the Audit Advisory Committee.

(a) The memorandum of understanding with the Malaysian Government has been signed for the establishment of a Global Shared Service Centre (GSSC) in Kuala Lumpur to support IPSAS-related functions. The core team of the GSSC, including the head and deputy head, have been recruited and participated in the IPSAS training in New York.

(b) All 34 IPSAS policies have been reviewed and endorsed by the Board of Auditors. The last one, which is still in progress, is the common premise policy, which requires the identification of all common premises. The revised financial regulations and rules have also been approved by the Executive Board in September 2011. All IPSAS-related Programme and Operational Policies and Procedures have also been revised and approved by the OPG.

(c) IPSAS training is being implemented according to schedule and has been progressively rolled out. It has included a series of webinars for country offices. Train-the-trainers workshops as well as regional workshops were being conducted in the last quarter of 2011. An external information package for donors and programme governments was being prepared for use by country offices.

(d) System configuration and testing for IPSAS is on target. These include the roll out of the contract module, a procurement catalogue and a document management system to support the uploading and retrieval of contribution agreements signed by UNDP offices and to enable communication between GSSC and country offices. Eighteen of the 20 management reports have been completed.

16. Leave records and recruitment management. In preparation for the recording of actual leave balances required under IPSAS, management has focused on the progressive roll-out of the absence management (leave) module in Atlas, related policy guidance, and the establishment of assurance processes for leave administration, leave record updates and compliance monitoring of related leave and recruitment policies.

(a) The enabling system and policies are in place for effective leave administration and accurate leave record management. The absence-management module in Atlas was fully implemented as of October 2010, with training support being provided to country and Headquarters offices. The system has been progressively refined over the past two years to reduce the previously large volume of manual updates and to assure the integrity of data. New e-services functions, such as an automated absence requesting and approval system, were already implemented in phases beginning in April 2011. UNDP will have reasonable assurance of the accuracy of the leave records of UNDP staff prior to the 1 January 2012 IPSAS start date.

(b) Several mechanisms are in place to assure the quality of leave records and the compliance of recruitment policies. These include: the capturing of annual leave balances in staff pay slips; random sampling of country-office leave records by payroll finance unit as part of monitoring and oversight; the planned roll out of the leave management system before the end of 2011; and mandated certification of leave balances by senior managers in offices for the purpose of preparing for the first accruals of annual leave liabilities as required for IPSAS compliance. Quality controls of the recruitment process are in place with the establishment of the Compliance Review Panel (for local staff) and Compliance Review Board (for international professional staff).

17. Balance sheet data clean-up in Atlas. This is another new focus area which was created in response to a recommendation made by the Board of Auditors in anticipation of the transition to IPSAS. While the Board of Auditors noted the significant efforts made in 2008-2009 to clean up long-outstanding account balances in Atlas, UNDP has since stepped up its efforts to resolve issues related to the

migration of insufficient information and inaccurate or unreconciled balances from the legacy accounting system. In October 2011, UNDP concluded its review of all legacy balances. The review concluded that UNDP may not be able to recover all amounts due.

18. Management of high-risk programme portfolios. This is a new focus area in 2010-2011. Consistent with its risk-based approach to managing audit issues, UNDP management recognizes the need for strategically managing our portfolios of potentially high-risk programmes. These include the Global Fund to Fight AIDS, Tuberculosis and Malaria (Global Fund) as well as euro-denominated trust funds subject to currency fluctuations.

(a) For the Global Fund, a clear oversight mechanism and risk-mitigation strategy is in place and proving effective. In addition to managing the size and spread of the portfolios (63 active grants in 30 countries, amounting to $1.3 billion in currently signed agreements), UNDP has been asked to serve as principal recipient under difficult circumstances or where local implementing capacity is limited, such as for grants in fragile States. Several mechanisms have been institutionalized to address portfolio risks. These include: (a) the six monthly portfolio and risk management reviews of Global Fund projects by the OPG, which is chaired by the Associate Administrator; (b) hands-on engagement and country-capacity assessment reviews by the senior management of the regional bureaux; and (c) a clear capacity-building strategy for programme countries. More recent developments in our strategic partnership with the Global Fund include the extension of the application of the Internal Audit Report disclosure policy to the Global Fund by the Executive Board and the issuance of the 2011 Global Fund Results Report. This report assessed the fiduciary controls, oversight mechanism and risk-management capacity of UNDP.[2]

(b) As regards the management of euro-denominated trust funds subjected to currency fluctuations, as at December 2010, the accounting deficit balances of trust funds had been reduced to $7.5 million (as compared to $15.9 million in 2009). As at June 2011, the accounting deficit of euro-denominated trust funds had been further lowered to $6.2 million of which $5.1 million (81 per cent) was related to the European Commission.

19. Long outstanding audit recommendations. Pursuant to Executive Board decision 2006/19, UNDP management has been taking active steps to fully address all audit recommendations that would be outstanding for 18 months or more as of December 2011. As at June 2011, only 35 out of the start list of 157 recommendations were yet to be fully implemented. This represents less than 1 per cent of the total number of recommendations issued between 2006 and 2009. Excluding 11 items that are dependent on reciprocal actions by third parties, 4 to be implemented under IPSAS (which can only be done in 2012), and those 7 specific to a UNDP country office currently affected by political unrest, there are 13 remaining recommendations. UNDP expects there to be further progress in the remaining months of 2011.

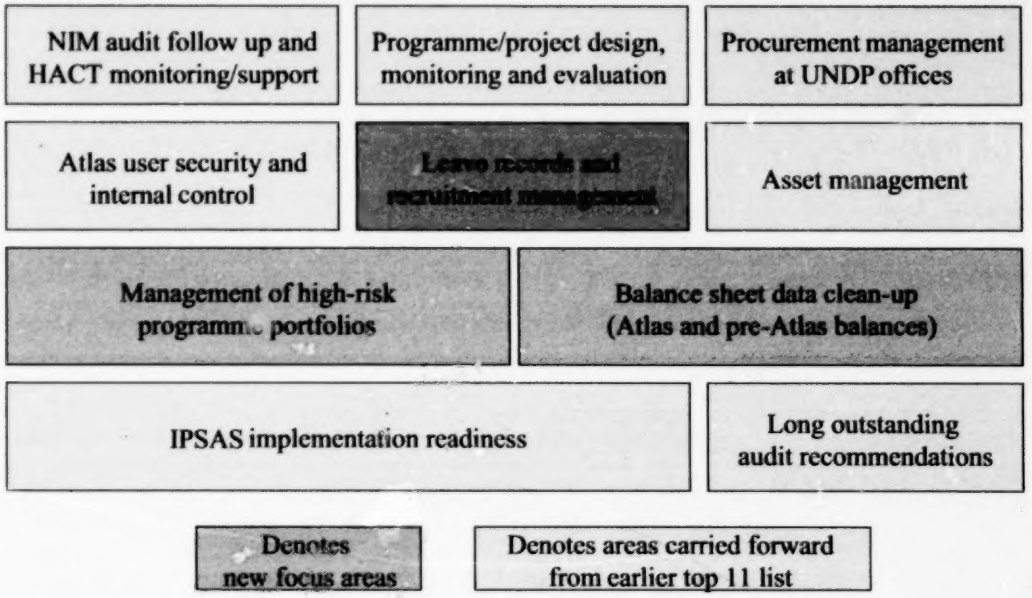
[2] The Global Funds Results Report for 2011 noted that 77 per cent of the grants managed by UNDP are rated A1 (exceeds expectations) or A2 (meet expectations) or B1 (adequate) by the Global Fund.

III. Conclusion

20. UNDP management is firmly committed to its accountability-based and risk-informed approach to addressing the top 10 audit priorities for 2010-2011. It will build on management efforts to address underlying audit issues begun during the last two bienniums. The current assessment is that there has been good progress made in 8 out of 10 areas. More work remains in two areas (programme/project management and procurement management), given the need to assess the full effects of management initiatives put in place or that are in progress. Management is optimistic about its planned transition to IPSAS in January 2012. It remains committed to making targeted efforts in addressing residual risks, protecting gains made so far while being alert to emerging ones.

Annex 1

Top 10 audit-related management priorities for 2010-2011


NIM audit follow up and HACT monitoring/support
Programme/project design, monitoring and evaluation
Procurement management at UNDP offices
Atlas user security and internal control
Leave records and recruitment management
Asset management
Management of high-risk programme portfolios
Balance sheet data clean-up (Atlas and pre-Atlas balances)
IPSAS implementation readiness
Long outstanding audit recommendations
Denotes new focus areas
Denotes areas carried forward from earlier top 11 list